AGRICULTURAL OUTLOOK DIGEST

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FARM INCOME ACHEIVING NEW RECORD

Substantial gains in receipts for livestock and larger Government payments are boosting gross farm income to new heights. Despite rising production expenses, net farm income is also reaching new heights.

In 1971, net farm income dropped to $16.1 billion from a $16.8 billion level in 1969 and 1970. The old record of $17.1 billion was set in 1947. Now it looks as through this year income will rise around $2 billion above the 1971 level to a new record.

Farmers took in gross farm income at a seasonally adjusted annual rate of $64½ billion during the first half of 1972, a sharp gain over the year before. The volume of products marketed wasn't any larger, but prices were up a tenth. This caused a $4½ billion increase cash receipts over a year earlier, on a seasonally adjusted annual basis. First-half Government payments were a little larger.

Livestock Key

Livestock keynoted the first half as rising prices caused strong gains in cash receipts for hogs and cattle. Dairy receipts were up modestly. Crop receipts held equal to first-half 1971.

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RUSSIA SIGNS GRAIN CONTRACT

The USSR will make large purchases of U.S. grain under a 3-year sales agreement. Purchases over the period will total at least $750 million, 5 times as much as the value of the 3 million tons of feed grains the USSR bought from us in the past fiscal year.

Purchases of at least $200 million are scheduled for the year beginning August 1, adding strength to U.S. grain markets. Purchases will be made on the open market. Credit will be extended by the CCC with the total outstanding not to exceed $500 million at one time. The USSR will pay back any loans in 3 annual installments.

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MARGINS MONITORED

In late June, margin controls were placed on prices of several categories of raw food products after the first sale. These limitations, which restrict middlemen's margins to the customary levels of a recent base period, now apply to fresh fruits and vegetables, eggs, and fresh fish. Fresh meat and poultry prices have been included from the outset, after first sale.

The new controls aren't likely to affect USDA's 1972 food forecasts unless the projected supply situation changes. Currently retail food prices are expected to average around 4½ percent higher than in 1971.

If supplies of the newly included food categories should become more plentiful and farm prices fall, the new margin limitations may hold down prices by preventing sudden widening of the farm-to-retail spread. On the other hand, if farm prices should rise, retail prices would also increase.

MEAT QUOTA SUSPENDED

While extending price controls to fresh products, the Government recently suspended meat import quotas for the balance of 1972 to attract a bigger meat supply, especially for beef. There may not be much impact in terms of bigger imports, though, since it takes time to adjust shipping schedules and world supplies are very tight.

Back in March the import quota level was suspended and a voluntary level for principal supplying countries was set at 1.24 billion pounds of meat for 1972. This level would be about a tenth over actual 1971 arrivals. The recent action removes the 1.24 billion pound limit, however.

Those countries qualified to sell us fresh and frozen meat have a little larger exportable supply this year, yet worldwide meat demand has escalated in relation to supply.

Western Europe in particular is bidding strongly for supplies from meat exporters such as Argentina, Australia, New Zealand, and Ireland. Meanwhile, Canadian internal demand will reduce that country's shipments to us, and New Zealand's beef supply is down. And around the world, because of attractive prices, cattle producers are holding back cows and heifers for herd building that might otherwise have been slaughtered.

AUGUST HIGHLIGHTS

Farm Income, from p. 1.

A similar tale is in store for the second half, except that the bulk of a billion-dollar gain in 1972 Government payments will arrive.

Crop receipts will continue about on a par with the 1971 level. Smaller wheat and feed grain crops are indicated, but big wheat and corn carryovers are likely to dampen prices this fall. Soybean and cotton prices have remained well over 1971 despite prospect of much larger crops.

Livestock receipts will continue well over last year's pace. Although second-half beef supplies are projected larger than a year earlier, pork supplies will continue much smaller, and consumer demand for meat and poultry should continue strong.

Cost Increases Ease

The year-to-year rise in farm production expenses has been trailing the rapid climb in gross income this year, after outdistancing it in 1971. At midyear farm production expenses were running at a seasonally adjusted annual rate of $46 billion, $2½ billion higher than in June 1971, leaving more than $18 billion in net income.

Feeder livestock prices were sharply higher than in the first half last year and notable price increases were registered for farm machinery, building and fencing materials, and interest and taxes per acre. On the other hand, feed prices were still running below 1971 levels at midyear.

Russian Sale, from p. 1.

The Russians can choose freely among corn, wheat, oats, rye, barley, and sorghums. However, there is some speculation that the bulk will be corn and wheat. If the entire sale were for corn, over a half-billion bushels would be involved.

The Russian agreement represents a drive to give Soviet consumers more protein in their diets by expanding domestic livestock output. The current mediocre winter wheat crop probably added to pressure for foreign buying. The grain contract is the biggest in Russian history, and will make the USSR the second-largest U.S. grain customer, following Japan.

LESS FEED, MORE SOYBEANS AND COTTON PLANTED

Apparently influenced by program and price changes and a late planting season, crop producers reduced 1972 feed grain plantings by a tenth—a larger cut than they had indicated in a March intentions survey.

On March 1 producers said they planned to plant 8 percent less feed and 5 percent more cotton and soybeans thay they had the prior spring. USDA had previously added extra options to farm programs encouraging diversion of acres from feed grains.

As spring progressed, cold weather, excessive precipitation, and frosts impeded spring planting. Meanwhile, cotton and soybean prices got stronger.

The July 1 crop report showed the planted crop acreage outcome: A tenth less feed grain acres than last year, but 8 percent more soybean land and 12 percent more acres of cotton.

Output

Projecting 1972 crop output by using yields trends, the July 1 acreage estimates suggest production of a tenth less feed grains. There would be a tenth less corn and 15 percent less grain sorghums. Food grain output would be down 5 percent in total, including slightly larger winter wheat and rice crops but heavy cutbacks for durum and other spring wheats.

HARVESTED ACREAGE, OUTPUT PROSPECTS

	Acreage for 1972 Harvest	Change from 1971	Projected 1972 production[1]	Change from 1971
	Million Acres	*Percent*	*Million units*	*Percent*
FEED GRAINS			184 tons	-10
Corn	57.3	-10	5,042 bu.	-9
Sorghums	13.7	-18	765 bu.	-15
Oats[2]	14.3	-9	712 bu.	-19
Barley[2]	9.6	-5	408 bu.	-12
FOOD GRAINS				
All wheat[2]	47.8	-1	1,551 bu.	-5
Winter wheat	35.4	+7	1,195 bu.	+3
Durum wheat	2.5	-9	77 bu.	-12
Other spring wheat	10.0	-21	278 bu.	-28
Rye[2]	1.2	-37	31 bu.	-40
Rice	1.8	0	85 cwt.	+1
OILSEEDS				
Soybeans	45.6	+8	1,227 bu.	+9
Cotton (Planted acreage)	13.8	+12		
Peanuts	1.5	0	3,093 lb.	+3
Flaxseed	1.2	-22	16 bu.	-17
TOBACCO[2]	.85	+1	1,752 lb.	+2

[1] Assumes recent yield trends and normal growing conditions. [2] Production is forecast.

HOG PRICES PEAKING

Hog prices are hitting the highest summer peak in years, pressured by smaller supplies and very strong retail demand for meat. Prices for barrows and gilts at 7 markets in mid-July were close to $29 per 100 pounds.

A June survey of producers showed that hog slaughter will continue below a year earlier through 1972 and into 1973, which would imply a continuation of strong prices.

There were 7 percent fewer market hogs on U.S. farms on June 1 than a year earlier. These hogs will provide the bulk of slaughter supplies in the second half. Slaughter will average below year-earlier rates next winter and spring because farmers plan a 5-percent reduction in June-November farrowings.

Following the summer price peak, the summer-fall quarterly price decline will be fairly typical this year, perhaps $3 or more per 100 pounds. Larger beef and poultry output is in store for fall, but strong consumer demand for meat will be a stiffening factor in the hog market.

FARMLAND VALUES RISE SHARPLY

Lower interest rates and more loan funds available brought more farmland purchases in the last year. A national survey of those knowledgeable about the farm real estate market showed that 126,000 properties changed hands between March 1971 and March 1972. This was 15,000 more than in the 1970/71 survey.

The 1970/71 survey showed prices up only 3 percent as a tight money spell drew to a close. But the new survey indicates farmland prices rose a striking 8 percent. Prices rose from Coast to Coast, with regional rises from 5 percent in the Northern Plains to 10 percent in Appalachian and Delta States.

Because of the 8-percent price rise, the average value of an acre of farmland and improvements rose $16 to $217, and total farmland value at this price rose over $15 billion to nearly $230 billion.

Real estate reporters responding to the March 1972 survey said that on the supply side, no more properties were being offered than in the preceding 12 months. It's likely, though, that some properties which hadn't sold when money was tight were still up for grabs, adding to the total number offered.

Demand was brisk. About half the reporters said that there were more inquiries for farms. A year before, only a fourth made this statement.

Who purchased land? Over half the purchases were added to existing farm operations, a clear sign that the trend to fewer but larger farms continues. The other big group of investors was the 30 percent who bought to farm full-time. The remaining 14 percent of all purchases were for part-time farms.

Considerable acreage was also reported purchased for immediate nonagricultural use. Nearly 40 percent of this acreage became subdivisions, and another fifth, rural residences.

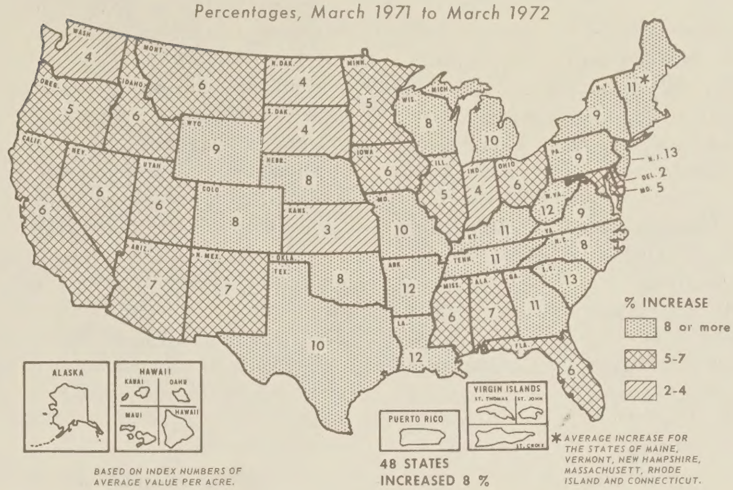
Some new questions in the survey offered a glimpse into the land dealings of corporations big and small.

The larger corporations, which offer stock to the public, picked up 200,000 acres during the 12-month period, less than 1 percent of total acreage transferred. These corporations also sold an equal amount of land and thus made no net gains in holdings.

Small corporations, with stock held by a handful of stockholders, represent mainly incorporated family farms. In equal amounts, these firms bought and sold about 2½ million acres.

CHANGE IN DOLLAR VALUE OF FARMLAND

Percentages, March 1971 to March 1972



AGRICULTURAL EXPORTS REACH NEW PEAK

Leaving memories of earlier dock strikes and international monetary upheaval behind, our farm exports wound up the 1971/72 year at a new record of $8 billion, based on preliminary estimates. They bettered the 1970/71 record of $7.8 billion on the strength of larger commercial sales.

Early Problems

Soon after the fiscal year began on July 1, 1971, it looked like exports were in trouble. Strikes by longshoremen incapacitated one port after another and potential cargoes of American farm commodities were stalled on dry land.

Meanwhile the United States suspended gold convertability in mid-August and imposed an import surtax, actions which raised clouds of uncertainty on the international trade horizon.

But as the months rolled on, the picture brightened. Strike losses were partially offset by advance or make-up purchases by foreign customers. Monetary reforms by major International Monetary Fund members in late December led to more favorable exchange rates for U.S. exports and a lifting of the import surcharge.

World grain markets were particularly sluggish, but sale of 3 million tons of feed grain to the USSR and short grain crops in competitor nations gave impetus to U.S. feed grain exports.

Rising economies and growing demand from consumers around the world have played an important role in the recent years. U.S. farm export value climbed 40 percent from 1968/69 to 1971/72.

Although there have been huge recent increases in world grain production, especially food grains, there has been growing demand for livestock products and feed, fats and oils, processed foods, and fruits and vegetables.

Thriving Economies

This demand comes from thriving economies and rising per capita incomes. In the past year most countries of Europe and Asia enjoyed economic improvement. As consumers sought to

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Farm Exports, from p. 3.

In conjunction with relatively stable or smaller supplies, world prices for meat, dairy products, and hides all were stronger. Similarly, prices of soybeans and soybean meal, a source of high-protein feed, increased. Unit values of cotton and tobacco rose. Prices of sought-after U.S. fresh fruits and nuts and processed foods remained strong.

While the aggregate quantity of U.S. farm goods exported was about equal to the prior fiscal year, the higher average prices boosted the total export value by $200 million in 1971/72.

Facts and Figures

Facts and figures for this record export year show that foreign aid shipments through Government programs remained at about $1 billion, the level of recent years. Sales for dollars, the commercial heart of our farm trade, rose to $7 billion.

Soybeans and products starred the show. With heavy demand for meal and higher bean and meal prices, sales of soybeans and products hit $2 billion, a first for a single commodity.

Another billion dollars represented sales of livestock and livestock products. Sales values for dairy products—mainly butter—hides and skins, and meat made important advances.

Cotton and tobacco exports fell in quantity, but higher prices maintained tobacco's export value and raised cotton's 7 percent.

Export value of grains and products fell 6 percent but still accounted for $2.5 billion. Wheat shipments were off sharply but feed grain exports gained about 1½ million tons to 20½ million tons.

Exports of fruits, vegetables, and nuts all achieved records. Heavy sales promotion and increasing demand have boosted fruit and nut sales. A big jump in hop shipments aided vegetables.

WANT TO GO DEEPER?

The job of this digest is to present the gist of current outlook reports from USDA. If you would like more detailed information on any of the topics discussed in this issue, write Agricultural Outlook Digest, Economic Research Service, U.S. Department of Agriculture, Washington, D. C. 20250, indicating the topics, and we'll send you the original reports.

FOREIGN FOCUS

Digested from Foreign Agricultural Trade of the United States, July 1972

EC Uses Feed Grain Substitutes

The EC's common agricultural policy supports high grain prices, and protects them with variable levies. The proportion of grain used in mixed feed production has trended downward in response, and more and more grain substitutes have been imported with little or no duty into the EC. Substitutes include such feeds as oilseed byproducts, food processing wastes, and even cassava, a tropical root crop.

In 1970, EC imports of nongrain products used in feeds reached a record $1.1 billion, almost equal to the $1.3 billion level for feed grains. EC imports of nongrain feed ingredients have been growing at an annual rate of 16 percent.

This substitution phenomenon has had considerable impact on our feed grain sales. However, we remain the leading supplier of feed ingredients in the EC market, largely because of our capacity for supplying levy-free soybeans and soybean meal at prices competitive with other high-protein supplements. Oilseed meal ranks second to grain as a component in EC mixed feeds. EC imports of U.S. oilseed meal, growing at an annual rate of 34 percent since 1961, reached $247 million in 1970, and accounted for 13 percent of all EC farm purchases from the United States.

Bloc Nations, Canada Took More, But Japan Less in 1971

For calendar year 1971, our farm exports to COMECOM—Russia, Bulgaria, Czechoslovakia, East Germany, Poland, Romania, and Hungary—jumped 40 percent to $210 million. Sharply higher feed grain purchases were the primary reason, made possible by Russia's desire for increased livestock production and easing of U.S. trade restrictions. On the import side, our purchases from the trade group fell 6 percent to $63 million.

Closer to home, record exports of farm products to Canada last year resulted from increased shipments of cattle, beef, fruits, vegetables, cotton, peanuts, vegetable oils, and seeds. Excluding transshipments to other countries, these exports reached $608 million. They were $575 million a year earlier.

Canada takes about 8 percent of our farm exports, making it the third largest customer, but we supply half of the $1.2 billion in farm commodities imported by Canada. Our own farm imports from Canada dropped to $313 million in 1971.

U.S. farm exports to Japan declined 12 percent to $1.07 billion in calendar year 1971, reduced by smaller shipments of corn, grain sorghums, wheat, and tobacco. Gains in cotton, soybeans, fruits, and nuts were partially offsetting.

Japan remains by far our most important farm market. West Germany, the second best market, took about $650 million worth of U.S. farm products last year.

Agricultural exports to Japan gained 9 percent a year over 1960-71. Economic expansion provided the overall base for rapid growth. Japanese per capita GNP, for example, gained over 10 percent a year. Our share of the Japanese market ranged from about one-fourth in 1962 and 1963 to around a third in the last 2 years.